

Message Text

LIMITED OFFICIAL USE

PAGE 01 PARIS 36564 01 OF 02 100858Z

22

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02 CIEP-01

LAB-04 SIL-01 OMB-01 PA-01 PRS-01 /057 W

----- 073191

R 100906Z DEC 76

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 7861

DEPARTMENT OF TREASURY

LIMITED OFFICIAL USE SECTION 01 OF 02 PARIS 36564

E. O. 11652: N/A

TAGS: EFIN

SUBJECT: COMMENTS ON THE WALL STREET JOURNAL ARTICLE
ON FRANCE OF DECEMBER 8, 1976

1. SUMMARY: THE SCENARIOS CITED BY WSJ DO NOT
INCLUDE ONE OF THE MOST LIKELY--NAMELY, NEITHER
A CLEAR-CUT SUCCESS NOR FAILURE FOR THE BAREE PLAN
WITH ELEMENTS OF THE PLAN (MONETARY AND FISCAL
TARGETS AND WAGE RESTRAINT) BEING FOLDED INTO AN
INVESTMENT SUPPORT PROGRAM DURING THE SECOND HALF
OF 1977. ALSO THE BARRE PLAN AND ECONOMIC FACTORS
MAY NOT BE AS DECISIVE IN POLITICAL TERMS AS THE
WSJ IMPLIES. THERE ARE OTHER IMPORTANT ELEMENTS,
AND ECONOMIC FACTORS CAN CUT BOTH WAYS WITHOUT
NECESSARILY CREATING OVERALL POLITICAL ADVANTAGES
FOR ONE SIDE OR THE OTHER. END SUMMARY

2. SUPPOSE THE FRENCH ECONOMY IN 1977 UNFOLDS
ALONG THESE LINES: A REAL GROWTH RATE OF ABOUT
3 PERCENT, A YEAR-OVER-YEAR INFLATION RATE OF
BETWEEN 8 AND 9 PERCENT, A CURRENT ACCOUNT, LONG-
TERM CAPITAL BALANCE OF PAYMENTS DEFICIT BETWEEN
5 AND 10 BILLION FRANCS, AN UNEMPLOYMENT LEVEL OF
BETWEEN 800,000 AND 900,000 -- AND THAT ALL THESE
ELEMENTS EXCEPT THE RATE OF INFLATION SHOW IMPROVE-
MENT DURING THE SECOND HALF OF THE YEAR

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 PARIS 36564 01 OF 02 100858Z

RELATIVE TO A RATHER DISMAL FIRST HALF. ALSO

IMAGINE THAT THE GOF, HAVING HELD PUBLIC SECTOR WAGES WITHIN 1 OR 2 PERCENT OF THE AUTOMATIC COST-OF-LIVING INCREASES, ANNOUNCES A 1 PERCENT REAL INCREASE AS A "BONUS" AT YEAR-END IN VIEW OF IMPROVEMENTS IN THE ECONOMY. IS THIS NECESSARILY AN ECONOMIC PRESCRIPTION FOR POLITICAL CRISIS? AS OF NOW IT SEEMS THE MOST LIKELY OUTCOME; OR AT LEAST IT IS CURRENTLY THE CONSENSUS FORECAST ASSUMING THE GOF IS SUCCESSFUL IN WAGE RESTRAINTS. ONE THING IS CERTAIN: SUCH AN OUTCOME FOR 1977 IN EITHER THE U.K. OR ITALY WOULD BE HERALDED AS A MIRACLE.

3. ARE FRANCE'S PRESENT ECONOMIC PROBLEMS CHRONIC OR CYCLICAL? IS THERE EVIDENCE OF A LONG-TERM DETERIORATION SUCH AS IN THE U.K., OR OF SEVERE STRUCTURAL AND FINANCIAL PROBLEMS AS IN ITALY? IT IS VERY HARD TO FIND EVIDENCE OF LONG-TERM DETERIORATION, AND STRUCTURAL PROBLEMS SEEM MUCH LESS SEVERE THAN IN ITALY. THERE ARE INDEED SERIOUS PROBLEMS, THE MAJOR SYMPTOM OF THEM BEING A CHRONIC INFLATION, FUNDAMENTALLY REFLECTING STRUCTURAL PROBLEMS AND SOCIAL AND POLITICAL DIVISIONS IN FRANCE. HOWEVER, THE EXPECTED RATE OF INFLATION ON A CPI BASIS HAS BEEN ABOUT 6 PERCENT PER YEAR VIRTUALLY SINCE 1920. THE PRESENT INFLATION RATE ON A YEAR-OVER-YEAR BASIS IS ABOUT 3-1/2 PERCENT ABOVE NORMAL EXPECTATIONS. WHILE INFLATION RATES IN THE U.S. ARE CONSIDERABLY LOWER, THEY STILL EXCEED OUR HISTORIC INFLATIONARY RATE BY ABOUT THE SAME RATIO AS IS THE CASE IN FRANCE. THE BIG DIFFERENCE BETWEEN THE U.S. AND FRANCE IS THAT CORPORATE CASH POSITIONS AND PROFIT POTENTIAL IN THE U.S. HAVE RECOVERED FROM THE INFLATIONARY RECESSION OF 1974-75 MUCH MORE THAN IS THE CASE IN FRANCE. AT THE PRESENT LEVEL OF DEMAND AND THE CURRENT RATE OF INFLATION, PROFITABLE INVESTMENT IN FRANCE IS GENERALLY VERY DIFFICULT. THE PRESENT LEVEL OF DEMAND CANNOT BE RAISED WITHOUT INCREASING THE RATE OF INFLATION. THUS, LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 PARIS 36564 01 OF 02 100858Z

THE BARRE PLAN OBJECTIVE OF CONTROLLING INFLATION FIRST AND FOREMOST IS THE ONLY POSSIBLE WAY TO REVIVE THE FRENCH ECONOMY ON A SUSTAINABLE BASIS. THE PROBLEM IS THAT THE INFLATION RATE IS VERY UNLIKELY TO GO BELOW 8 PERCENT AND MAY REMAIN AT 9 PERCENT FOR 1977 OVER 1976. THUS, A MAJOR ECONOMIC QUESTION IS WHETHER OR NOT AN INFLATION RATE TWO OR THREE PERCENT ABOVE THE HISTORIC RATE WILL CONTINUE TO

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 PARIS 36564 02 OF 02 100857Z

22

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02 CIEP-01

LAB-04 SIL-01 OMB-01 PA-01 PRS-01 /057 W

----- 073216

R 100906Z DEC 76

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 7862

DEPARTMENT OF TREASURY

LIMITED OFFICIAL USE SECTION 02 OF 02 PARIS 36564

DISTORT SAVINGS AND INVESTMENT FLOWS IN 1977 AS
EXCESSIVE INFLATION RATES CLEARLY HAVE DURING
THE PAST TWO YEARS. CERTAINLY DOMESTIC POLITICAL
UNCERTAINTIES CAN AND PROBABLY WILL INFLUENCE
INVESTOR BEHAVIOR IN FRANCE IN 1977, BUT IT IS
ABSOLUTELY CERTAIN THAT INVESTMENT WILL NOT REVIVE
UNLESS CORPORATE CASH FLOW AND PROFITABILITY IMPROVE.
THIS IS THE MAIN REASON WHY WAGE RESTRAINT IN 1977
IS SO ESSENTIAL. AS THE WSJ CORRECTLY STATES, IT
IS ALSO THE RISKIEST PART OF THE PLAN.

3. SINCE THE GOF HAS REFRAINED FROM USING MONETARY
POLICY TO SHARPLY SLOW DOWN THE ECONOMY, MAINLY FOR
FEAR OF EXCESSIVE LEVELS OF UNEMPLOYMENT, THE
ECONOMIC ASPECTS OF THE SITUATION AS OUTLINED
ABOVE BOIL DOWN TO A SHIFT FROM CONSUMPTION,
THROUGH SMALLER WAGE INCREASES, TO INVESTMENT, BY
MEASURES TO CONTROL INFLATION AND IMPROVE PROFITABILITY
DURING A PERIOD OF RELATIVELY SLOW REAL ECONOMIC
GROWTH. THIS POLICY PROVIDES CLEAR-CUT SOCIAL AND
POLITICAL ISSUES FOR 1978, ASSUMING THE GOF STICKS TO
THE ESSENTIALS OF THE BARRE PLAN. IT IS VERY
PROBLEMATICAL WHETHER THESE ISSUES NECESSARILY

FAVOR THE UNION OF THE LEFT. IT MAY WELL BE
THAT ECONOMIC ISSUES, IF CLEARLY DEFINED BY THE
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 PARIS 36564 02 OF 02 100857Z

GOF, COULD CAUSE THE SOCIALISTS AND COMMUNISTS
CONSIDERABLE DIFFICULTY.

5. IF THE CONSENSUS FORECAST FOR THE FRENCH
ECONOMY IN 1977 IS REASONABLY CLOSE TO
ACTUAL DEVELOPMENTS, THE BARRE PLAN AND THE
ECONOMY MAY NOT BE THE DECISIVE ISSUE IMAGINED
BY THE WSJ. THE ECONOMY WILL BE IMPORTANT BUT
AS NOTED ABOVE THE ECONOMIC ISSUES MAY WELL NOT
OFFER DECISIVE ARGUMENTS FOR ONE SIDE OR THE OTHER
AND THERE REMAIN MANY OTHER IMPORTANT SOCIAL AND
POLITICAL ISSUES FOR THE 1978 NATIONAL ASSEMBLY
ELECTIONS. FOR THE EMBASSY'S MOST RECENT POLITICAL
ROUNDUP, SEE PARIS 36482
OF DECEMBER 9, 1976.
RUSH

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRESS COMMENTS, ECONOMIC RECOVERY, FINANCIAL PROGRAMS, ALLEGATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976PARIS36564
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760456-0396
From: PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761254/aaaabuko.tel
Line Count: 193
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 23 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 APR 2004 by BoyleJA>; APPROVED <26 APR 2004 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COMMENTS ON THE WALL STREET JOURNAL ARTICLE ON FRANCE OF DECEMBER 8, 1976
TAGS: EFIN, SOPN, US, FR, (BARRE, RAYMOND)
To: STATE TRSY
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006